Remarks

Claim Status

Claims 1-35 were originally presented for examination in this application. An election of species requirement was issued on April 9, 2007, in response to which Applicant elected Species IV, corresponding to Figures 11-13 and claim 34, and further indicated that claims 1-13, 19, 25-28 and 35 are readable on Species IV. As such, claims 14-18, 20-24 and 29-33 were withdrawn from consideration. An office action was issued on November 28, 2007, in which:

- Claims 1-13, 19, 25-28, 34 and 35 were rejected under 35 U.S.C. §112, second paragraph as being indefinite for failing to particularly point out and distinctly claim the subject matter which Applicant's regard as the invention; and
- Claims 1-13, 19, 25-28, 34 and 35 were rejected under 35 U.S.C. §102(e) as being anticipated by U.S. Patent No. 6,687,681 to Schultz et al. ("Schultz").

In this response, Applicant has amended claims 1-3, 5-10, 12, 13, 19, 26-28, 34 and 35 to address these rejections and to further clarify and describe the invention with greater particularity. Applicant has also added new claims 36-40. Support for these amendments and new claims can be found at least at page 57 line 15 through page 58 line 24 of the application as filed. No new matter has been added.

Claim Rejections Under 35 U.S.C. §112, Second Paragraph

Independent claims 1, 8, 26 and 35 have been amended to more particularly point out and distinctly claim the subject matter which Applicant regards as the invention. Applicant respectfully requests the withdrawal of these rejections.

Claim Rejections Under 35 U.S.C. §102(e)

Independent claims 1, 8, 26 and 35 as amended, each recite optimizing a financial portfolio for after-tax returns and total tax costs based on proposed transactions generated in response to investment styles (claims 1 and 26) or model portfolios (claims 8 and 35). The Schultz system simply cannot perform such an optimization.

Schultz describes techniques for rebalancing individual portfolios to track a selected index and selecting securities for tax loss harvesting. Schultz, col. 7, lines 51-54. These two processes are, however, completely unrelated – in fact nowhere does Schultz describe how the rebalancing process is impacted or modified based on potential tax implications. Specifically, the rebalancing process merely "determines the securities to be purchased for a given account based on the capitalization weight of each security in the index and an industry balance parameter." Schultz, col 8, lines 24-27. The process continues, as "after the securities in the system are selected, security purchase information is transmitted to the trading system, which in turn purchases the securities." Schultz, col. 8, lines 32-35. As described, the purchases are executed blindly, without regard to how the purchase (or sale) impacts an individual's total tax position. The purpose is simply "to assure that the accounts will model the performance of the index." Schultz, col. 8, lines 46-47. Separate and distinct from the rebalancing process "each selected account is also evaluated for purposes of harvesting tax losses." Schultz, col. 9, lines 5-6. The harvest process consists of selecting securities for trading if a loss generated by selling a security is above a certain threshold and selecting replacement securities to take its place. Schultz, col. 9, lines 9-16. The only consideration of tax implications of any transaction is the limitation of the frequency of the harvesting process to avoid so-called "wash sales." Schultz, col. 4, lines 55-61.

In contrast, Applicant's invention optimizes after-tax returns by considering the implication of executing proposed trades on a portfolio's total tax costs and risk exposure. As such, the information generated by the claimed apparatus and related methods can, for example, be used to determine whether the transactions should be made in the first place. For example, using the Schultz system, a an order to sell 100 shares of General Electric may be generated to minimize the tracking error with respect to an index. The trade is simply executed without regard to the tax implications on individual accounts. Using the claimed technique, however, the transaction may not be executed if, for example, selling the shares would result in a short-term gain within the portfolio that could not be offset by an equivalent (or at least similar) short-term loss. In other instances, the sale may be executed because that portfolio already has loss carry forward or previously realized losses that can offset the gain realized by selling the position in GE. Unlike Schultz's consideration of wash sales, such a loss may have been generated months prior and been the result of a sale of a different security. Therefore, the invention provides a

significant improvement over conventional portfolio management strategies such as Schultz by considering the total tax implications of proposed trades prior to execution and in consideration of past transactions across numerous positions in a portfolio.

Thus, because Schultz does not teach or suggest every element of independent claims 1, 8, 26 or 35 as amended, Applicant respectfully submits that this reference fails to anticipate these claims. Accordingly, Applicant respectfully requests reconsideration and withdrawal of the rejection of claims 1 and 26 under 35 U.S.C. §102(e), as well as those claims that depend directly or indirectly therefrom.

Conclusion

Applicant respectfully submits that, in light of the foregoing amendments and remarks, claims 1-13, 19, 25-28 and 35-40 are in condition for allowance, and requests that application proceed to issue. If, in the Examiner's opinion, a telephonic interview would expedite the favorable prosecution of the present application, the undersigned attorney would welcome the opportunity to discuss any outstanding issues and to work with the Examiner toward placing the application in condition for allowance.

Respectfully submitted,

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